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SENSITIVE
SIPDIS

STATE FOR EUR/WE AND EEB/IFD/OMA;
TREASURY FOR OIA:R.JOHNSTON AND OTP:JHARRINGTON;
COMMERCE FOR 4212/DON CALVERT

E.O. 12958: N/A

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SUBJECT: SPANISH PRESIDENT ZAPATERO CALLS FOR RENEGOTIATION
OF DOUBLE TAXATION TREATY

Action Request in Para 4

1.(U) In an October 21 speech to the American Business Council (ABC), President Zapatero announced that the GOS was ready to begin the process of revising the 1990 bilateral tax treaty. In a conversation afterwards, Zapatero told post's Commercial Counselor that the USG should follow up with Secretary of State for Finance and Budget Carlos Ocana and his staff.

2.(SBU) The announcement surprised and delighted several representatives of U.S. companies who were present. The ABC and the separate American Chamber of Commerce in Spain (AmCham) have during the past few years regularly called for renegotiation of the treaty. Spanish companies with investments in the U.S. have also asked the GOS to renegotiate. Finance Ministry officials have in the past not indicated that renegotiation was a priority for them. Just before Zapatero's meeting with the President last week, the AmCham sent the Presidency its list of recommended changes to the treaty. Post will forward that document to State and Treasury.

3.(SBU) Comment: Our conversations with GOS economic officials suggest that the GOS' sudden willingness to renegotiate the treaty is a result of the positive impact of Zapatero's meeting with the President. In his speech, Zapatero cited the willingness to renegotiate as one part of a broad effort by the USG and the GOS to create jobs by promoting investment in both countries. (Septel reports his comments on fighting internet piracy; he also announced that the two governments were considering establishing a bilateral investment forum.) Our belief that the meeting made the difference is strengthened by the fact that the Presidency did not inform the ABC that Zapatero was willing to address it until October 16, after the Washington visit.

4.(U) Action Request: Post understands that Treasury's Office of Tax Policy had informed treaty negotiators who work for Ocana last year, and had informed the Spanish ambassador in Washington early this year, of USG interest in renegotiating the treaty. Zapatero's statement is a clear demonstration of GOS interest. Presidency Economic Office head Javier Valles said after the speech that the GOS would like a formal expression of interest from Treasury in order to proceed. Post seeks guidance on next steps. End Action Request.
CHACON